

**AUDIT OF PROCUREMENT OF PROFESSIONAL
SERVICES FROM THE FEDERAL SUPPLY
SERVICE'S MULTIPLE AWARD SCHEDULES
REPORT NUMBER A020243/F/A/V03009**

JULY 31, 2003

Date: July 31, 2003

Reply to: Regional Inspector General for Auditing
Attn of: Acquisition Programs Audits Office (JA-A)

Subject: Audit of Procurement of Professional Services from the Federal
Supply Service's Multiple Award Schedules
Report Number A020243/F/A/V03009

To: Donna D. Bennett
Commissioner, Federal Supply Service (F)

This report presents the results of our review of Procurement of Professional Services from the Federal Supply Service's Multiple Award Schedules program. From the 1,976 responses received pertaining to services task orders only one-third were priced on a firm-fixed price basis. Eighty-one percent of task orders issued under Blanket Purchase Agreements reflected better pricing. FSS should continue to assist customer agencies through training and marketing efforts, particularly in areas of competition, price analysis and contract types.

If you have any questions regarding this report, please contact Henry Noll, Jr., Regional Inspector General for Auditing, or me on (703) 603-0189.

William D. Anthony
Audit Manager
Acquisition Programs Audit Office (JA-A)

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EXECUTIVE SUMMARY

Purpose

To obtain a greater in depth knowledge of how customers are using professional services contracts under the General Service Administration's (GSA), Federal Supply Service (FSS) Multiple Award Schedule (MAS) Program, we distributed surveys to contracting officials in four customer agencies. The 5,589 surveys sought information on whether task orders were placed on a ceiling/not to exceed price (time-and-materials) basis or a firm-fixed price basis and other limited information including whether additional discounts were obtained from the established GSA price.

Background

Service procurements from FSS' MAS program have increased in recent years from \$6.9 billion in fiscal year 2000 to \$12.7 billion in fiscal year 2002. Audit reports issued by the General Accounting Office, Department of Defense Office of Inspector General and National Aeronautics and Space Administration Office of Inspector General have identified problems and concerns with task order competition and pricing. Additionally, several recent legislative and regulatory developments relate to and may impact aspects of MAS services purchases, specifically the use of time-and-materials task orders for such purchases.

Survey Results

We received 1,976 responses pertaining to services task orders, totaling \$2.4 billion. Only one-third of these orders were priced on a firm-fixed price basis. Twenty-nine percent reflected prices better than established GSA prices. Although our survey results show that agencies are not frequently using Blanket Purchase Agreements (BPA), 81 percent of task orders that were issued under a BPA reflected better pricing. However, only 40 percent of the task orders exceeding the Maximum Order Threshold (MOT) and 54 percent of the task orders exceeding \$10 million reflected better pricing. As a result, FSS should continue to assist customer agencies through training and marketing efforts, particularly in the areas of competition, price issues, and task order type, in order to improve the ability of contracting officials to effectively award task orders.

Next Steps:

In the future, we expect to conduct additional related audit work in connection with this survey. This more detailed work will most likely focus on the areas of pricing, MAS ordering procedures, and cost growth of task orders.

Management Comments:

The FSS Commissioner found the information provided herein to be useful.

INTRODUCTION

Background

Procurements of services from the General Services Administration (GSA), Federal Supply Service's (FSS) Multiple Award Schedules (MAS) Program have grown significantly in recent years. In fiscal year (FY) 2000, \$6.9 billion in services were purchased by government agencies under the MAS Program; in FY 2002, \$12.7 billion in services were purchased. This increase is due, in part, to the ease of use of MAS contracts.

Although MAS services purchases are clearly increasing, a dearth of information exists regarding the details of these purchases. This is due, in part, to the fact that the Federal Procurement Data System (FPDS) contains only limited information on purchases under MAS contracts. The FPDS does not capture, for example, the types of task orders placed under these vehicles. For MAS contracts, the FPDS captures only the firm fixed price nature of the overall MAS contract vehicle. In addition, the nature of MAS contracts themselves leads to difficulties with collecting centralized procurement information. GSA contracting officials initially negotiate and establish MAS service contracts (including price and terms and conditions), while ordering agencies actually award (including negotiating overall order or task price) and administer task orders under the contracts.

Recently, a number of issues have arisen in connection with MAS services procurements. Several agencies, including the General Accounting Office (GAO), the Department of Defense (DOD) Office of Inspector General (OIG), and the National Aeronautics and Space Administration (NASA) OIG, have performed reviews of agencies' use of MAS services contracts, and have concluded that problems in the areas of competition and pricing exist.¹ For example, GAO reviewed DOD information technology services purchases and concluded that DOD contracting officials were not seeking competitive quotes; specifically, GAO found that 17 of the 22 information technology service task orders reviewed (valued at \$60.5 million) were placed without seeking competitive quotes.²

Several recent legislative and regulatory developments also relate to aspects of MAS services purchases, specifically to the use of time-and-materials task orders for such purchases. First, the Services Acquisition Reform Act of 2002, H.R. 3832, introduced last year in the 107th Congress, would have recognized more fully the use of time-and-materials task orders to purchase commercial services.³ Currently, the Federal Acquisition Regulation (FAR) discourages the use of such task orders, and GSA Special Ordering Procedures limit the use of such task orders for services purchases.⁴ In

¹ DOD OIG Report, Contract Actions Awarded to Small Businesses, D-2003-029, November 25, 2002; NASA OIG Report, NASA Acquisition of Services Using the Federal Supply Schedules, March 27, 2002.

² GAO, Contract Management, Not Following Procedures Undermines Best Pricing Under GSA's Schedule, GAO-01-125, November 2000.

³ The Services Acquisition Reform Act of 2003 was recently introduced in the 108th Congress as H.R. 1837 since the bill was not approved in 2002. H.R. 1837, like the prior bill, would recognize more fully the use of time-and-materials vehicles.

⁴ The proposed FAR Case 1999-603, which would amend FAR Part 8.4 to include coverage on ordering services, was issued on April 19, 2003.

addition, the use of time-and-materials task orders was raised last summer in connection with the development of a Defense Federal Acquisition Regulation Supplement to implement Section 803 of the National Defense Authorization Act of FY 2002.

Objectives, Scope and Methodology

Our objectives in conducting this audit were:

- 1) to determine how agencies purchase MAS services, including whether task orders are placed on a time-and-materials or firm-fixed price basis, and
- 2) to examine other limited aspects of task order awards including whether additional discounts are achieved by ordering agency contracting officials.

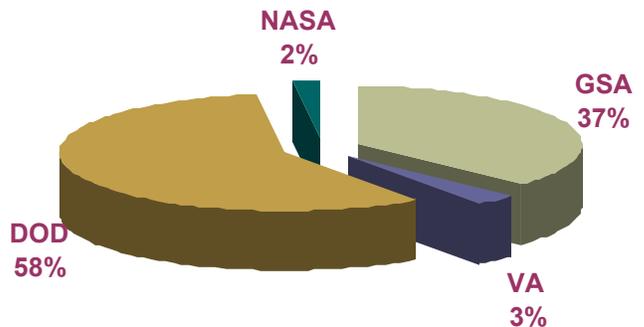
The scope of our audit included identifying task orders to review; developing and administering a survey instrument to agencies which placed task orders; reviewing a number of other audit reports prepared by GAO, DOD OIG, and the NASA OIG; and holding discussions with officials at GSA, GAO, DOD, NASA, and the Department of Veterans Affairs (VA).

In order to identify task orders that were the subject of this review, we first obtained FPDS information for transactions in FY 2001 for all professional services.⁵ We used transaction data to arrive at task order data. In the FPDS, a single task order can have multiple transactions associated with it, including the award of the task order, modifications, and any orders placed under a multiple award contract. The total transactions included were 20,906, which represented purchases from 40 agencies. From this transaction data, we chose all the transactions involving NASA, VA, GSA's Federal Technology Service, and DOD. These 4 agencies' transactions represented 16,341 of the total transactions (78 percent).

From this transaction information, using a random number generator, we selected 5,589 task orders. We examined the data to eliminate multiple or duplicate transactions and to arrive at and isolate individual task orders. We were not able to determine the total dollar value represented by these 5,589 task orders because of limitations in the FPDS transactional data we were working with.⁶

We then developed a survey instrument, which we directed to contracting officials connected with each of the 5,589 task orders we isolated. These surveys were primarily distributed to GSA and DOD, as these agencies are FSS' largest MAS customers. Surveys were also distributed to NASA and VA. Detailed survey results have been provided to these participating agencies. The survey, which is attached at Appendix A, asked questions regarding the nature and

Survey Distribution by Agency



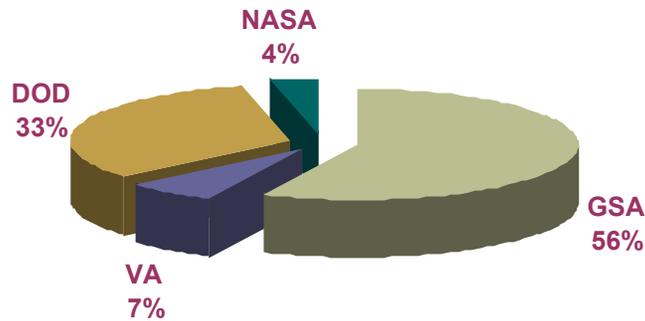
⁵ We used the FPDS' product and service codes to select professional service task orders, including technology services, professional services, and management support services.

⁶ FPDS data reflects only transactions (not task orders) and our sample included only FY 2001 transaction data (while task orders can span several years).

value of the task orders, and the overall prices obtained by ordering agencies.

Of the 5,589 distributed surveys, our office received 2,278 responses (41 percent response rate) from the four agencies. Each individual agency had a response rate of 63 percent or higher, with the exception of DOD.⁷ However, 33 percent of the total number of responses was from DOD, with the majority of the responses (56 percent) originating from GSA. The remaining 11 percent of responses were received from VA and NASA.

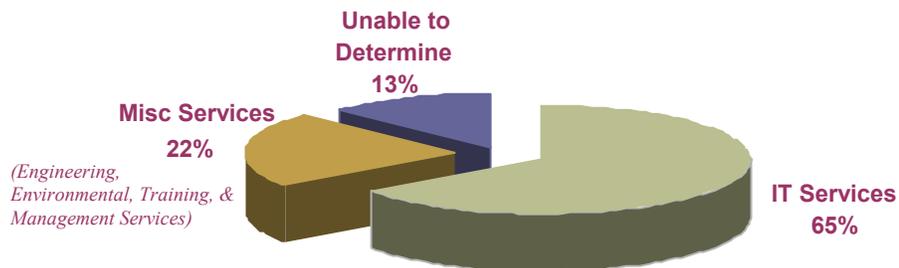
Total Responses Received by Agency



These 2,278 responses included 1,976 services task orders, totaling approximately \$2.4 billion. The remaining 302 orders represented contracting actions for which the contracting official could not locate task order information (9 percent), or that were commodity or product orders which were miscoded in the FPDS as services task orders (5 percent).

Of the 1,976 services task orders, 1,285 (65 percent) represented purchases for information technology services. These information technology services task orders totaled approximately \$2 billion.

Task Orders – By Type of Service



Fieldwork was conducted during September 2002 through March 2003. This audit complies with Generally Accepted Government Auditing Standards.

We expect to conduct additional related work in connection with this survey instrument. This more detailed work will most likely focus on the areas of pricing, MAS ordering procedures, and cost growth of task orders.

⁷ DOD had a 29 percent response rate. This low response rate may have been partly contributed to incorrect addresses for contracting officials in FPDS, and our inability to follow up with the contracting officials.

SURVEY RESULTS

The General Services Administration (GSA) Office of the Inspector General distributed 5,589 surveys to contracting officials in GSA's Federal Technology Service, the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Veterans Affairs (VA) to obtain information on the service procurements reflected in the selected task orders. The task orders, together with the assigned contracting offices, were identified through the Federal Procurement Data System (FPDS). The survey instrument is included in this report in Appendix A.

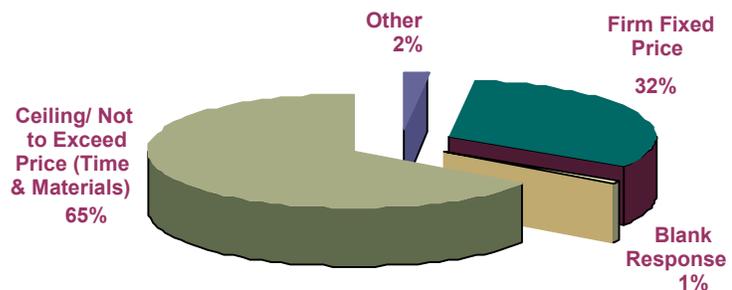
The purpose of this survey was to determine whether task orders are typically awarded based on a "firm-fixed price or ceiling/not to exceed price" basis,⁸ as well as to obtain general pricing information pertaining to service procurements from GSA's Multiple Award Schedules (MAS) Program. Of the 5,589 surveys our office distributed to contracting officials in the selected agencies, we received 1,976 responses pertaining to services task orders, totaling approximately \$2.4 billion.⁹ Only one-third of these orders were priced on a firm-fixed price basis. Twenty-nine percent reflected prices better than established GSA prices. Although our survey results show that agencies are not frequently using Blanket Purchase Agreements (BPA), 81 percent of task orders that were issued under a BPA reflected better pricing. However, only 40 percent of the task orders exceeding the Maximum Order Threshold (MOT) and 54 percent of the task orders exceeding \$10 million reflected better pricing. As service procurements continue to grow, contracting officials need to implement the necessary controls and oversight to avoid possible cost-growth problems, as well as routinely seek price discounts to ensure agencies are receiving the best value.

Basis of Pricing for Task Orders:

Firm-Fixed Price or Ceiling/Not to Exceed Price (Time-and-Materials)

The survey asked contracting officials whether the task orders they awarded as a whole were priced on a "firm-fixed price or ceiling/not to exceed price" basis.¹⁰ For those task orders priced on a ceiling/not to exceed basis, the survey further asked whether the task order involved time-and-materials (for labor

Task Order Type (Pricing Basis)



⁸ For the purposes of this report, we treated the term "ceiling not to exceed price" as synonymous with "time-and-materials."

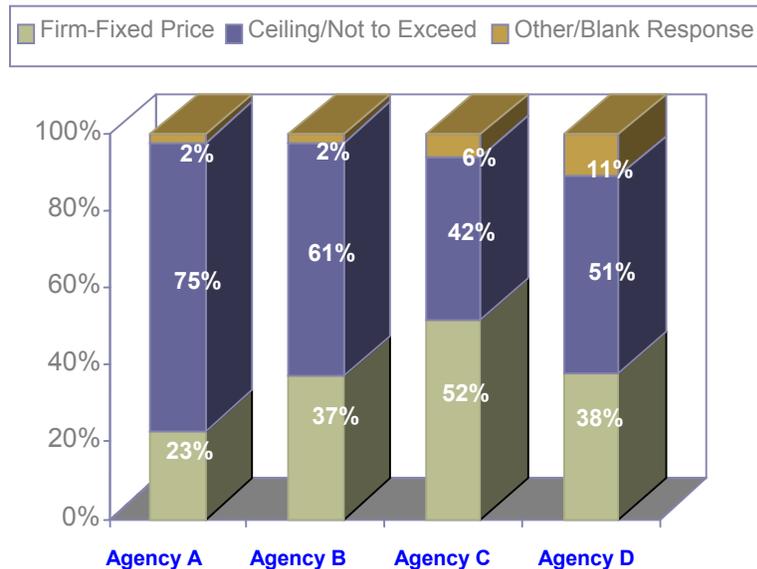
⁹ In entirety, our office received 2,278 responses; however, 302 of these orders represented contracting actions for which the contracting official could not locate task order information or that were commodity or product orders which were miscoded in the FPDS as services task orders.

¹⁰ We believe some respondents may have misinterpreted this question. The MAS labor rate is a firm-fixed price rate since it is prenegotiated and loaded with overhead. Officials at other agencies that helped facilitate our survey indicated that respondents may have answered this question with reference to the labor rate rather than the *overall* order.

together with materials) or just labor hours.¹¹

Sixty-five percent, or 1,274 responses, indicated that the task orders were priced based on ceiling/not to exceed amounts, with the majority of these responses indicating that the orders were specifically time-and-materials orders. Thirty-two percent, or 635 responses, indicated that the task orders were priced on a firm-fixed price basis. The remaining 3 percent cited other pricing bases or types, or did not answer the question. The following chart reflects the task order type by agency.¹²

Task Order Type (Pricing Basis) By Agency



Task Order Pricing:

The survey also solicited certain limited information regarding the pricing of services task orders. Specifically, the survey asked whether the value of the task order exceeded the Maximum Order Threshold (MOT) and whether the task order was issued under a Blanket Purchase Agreement (BPA). The survey also asked whether the order reflected better pricing than provided for by the GSA MAS rate.¹³

¹¹ GSA Special Ordering Procedures (September 2000) allow the use of time-and-materials task orders only when “it is not possible at the time of placing the order to estimate accurately the extent or duration of the work or to anticipate cost with a reasonable degree of confidence.” The procedures also require that a contracting official document this determination in the contract file.

¹² Additional detailed survey results may be made available upon request.

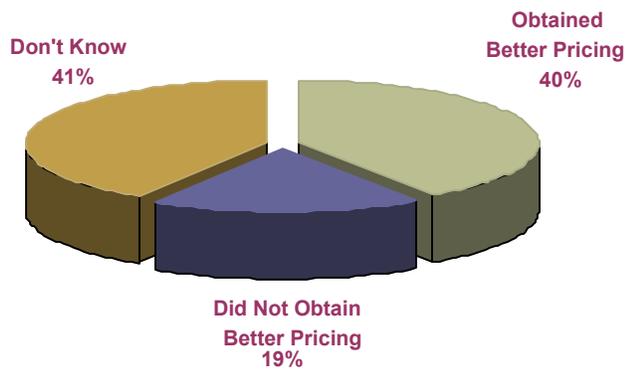
¹³ We received several phone calls where contracting officials asked for clarification regarding this question. Generally, they expressed surprise that better rates could be negotiated under these task orders.

GSA Special Ordering Procedures for Services (September 2000) provide that customer agencies are responsible for determining whether the overall order price is fair and reasonable by considering whether the mix of labor and level of effort are appropriate on the work to be conducted. As a practical matter, customer agencies can negotiate lower individual labor rates or seek an overall discount on the entire project (task order).

Obtaining Better Pricing on Task Orders Exceeding the Maximum Order Threshold

The MOT is an amount established by GSA contracting officials and represents the point at which it is advantageous for ordering agencies to seek better prices from GSA vendors. The MOT for the majority of professional services contracts is from \$500,000 to \$1 million. Although contractors are not required to provide these further discounts, customers should attempt to negotiate for lower prices.

Task Orders Exceeding the Maximum Order Threshold

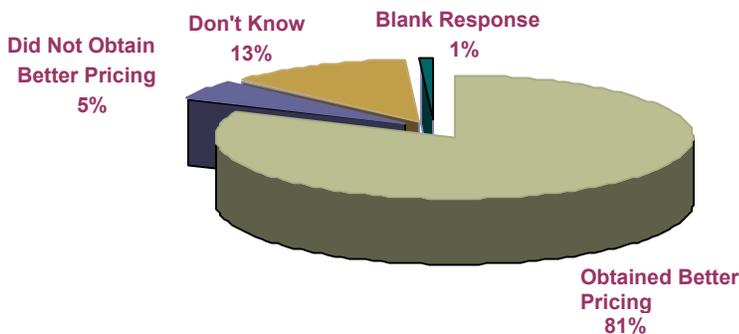


In our sample, 388 task orders exceeded the MOT. Only 40 percent of these task orders reflected better pricing.¹⁴ Since GSA determines that the contract price is fair and reasonable for orders below the MOT, contracting officials should negotiate for additional price discounts on orders exceeding the MOT.

Using Blanket Purchase Agreements to Obtain Better Pricing

In an effort to assist contracting officials in negotiating better prices for large volume purchases, FSS is encouraging customer agencies to negotiate for additional discounts through BPAs. BPAs negotiated under MAS contracts are appropriate in instances where an ordering agency anticipates making repetitive purchases. Because agency customers can specify a certain – usually large – volume of sales, such agencies are often able to negotiate better pricing. In addition to better pricing, agencies using BPAs can simplify the acquisition process and

Pricing on Task Orders Under Blanket Purchase Agreements



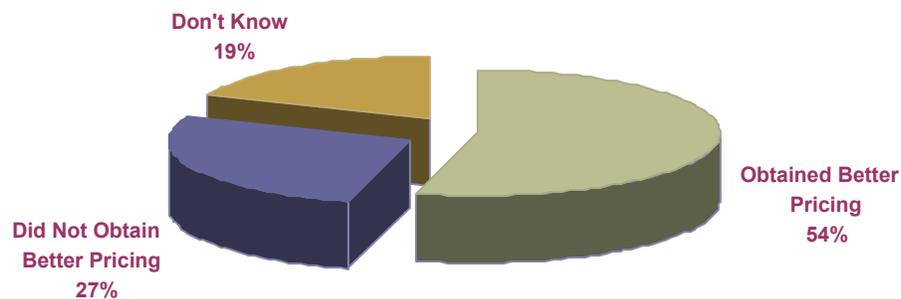
¹⁴ We believe there is some confusion among contracting officials regarding MOTs. Although MOTs for services contracts are generally \$1 million or less, for those orders that exceeded \$1 million, 38 percent of the responses indicated that the task orders did not exceed the MOT.

reduce the administrative effort needed to award orders within their organization. Of the task orders we examined, 287 indicated that the orders were part of a BPA. Of the total orders placed under BPAs, 81 percent indicated that better pricing was obtained. Twenty-nine percent of the task orders that exceeded \$10 million were a part of a BPA and all of these orders reflected better pricing. BPAs can assist contracting officials in negotiating better price discounts by providing them with a tool to leverage their purchasing power.

Pricing with Large Dollar Task Orders

Of the total orders we examined, 48 exceeded \$10 million. Of these orders exceeding \$10 million, better pricing was obtained on 54 percent. Similar to BPAs, contracting officials can leverage their purchasing power to obtain lower prices for task orders with large dollar values.

Pricing On Task Orders Exceeding \$10 Million



CONCLUSION

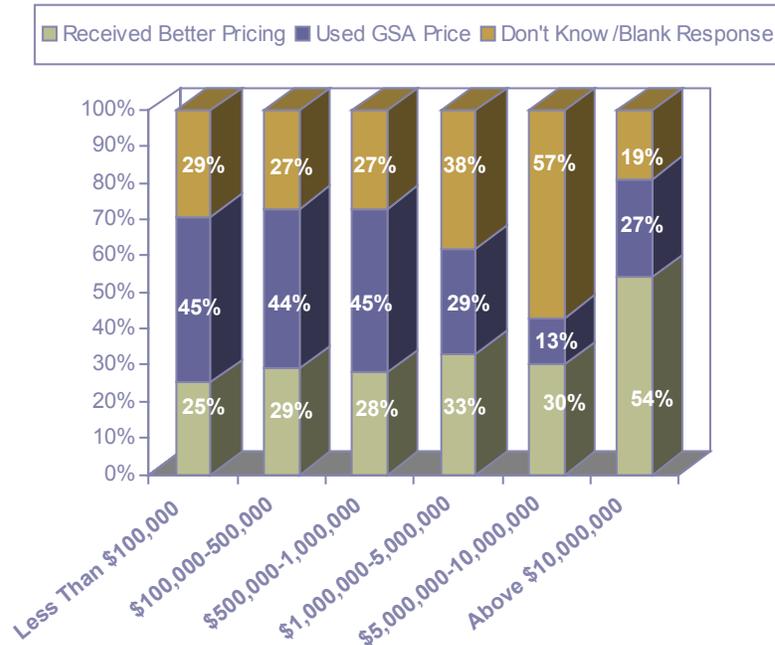
In conducting our multi-agency sample of 1,976 task orders, we learned that only one-third of the total task orders were firm-fixed price. Due to the potential cost-growth problems associated with ceiling/not to exceed price (time-and-materials) orders, we feel that contracting officials need to ensure that these vehicles are really appropriate for their orders and that adequate oversight is provided over these orders.¹⁵ Contracting officials should also make proper justifications, with accompanying documentation, when using these vehicles.

In addition to cost control, our office is concerned with pricing practices for MAS task orders. Contracting officials should routinely seek price discounts, especially as the dollar value of the task orders increases. Of the task orders that exceeded the MOT, 40 percent obtained better pricing. Also, while 81 percent of the task orders under BPAs

¹⁵ Contracting officials may need to consider, for example, awarding subsequent work on a firm-fixed price basis, or converting a contracting effort to a firm-fixed basis once some initial work is accomplished.

involved better pricing, only 54 percent of the task orders over \$10 million obtained better pricing. Therefore, FSS should continue to assist customer agencies through

Pricing Discounts Obtained by Task Order Size



training and marketing efforts, particularly in the areas of competition, price issues, and task order type, in order to improve the ability of contracting officials to effectively award task orders.

MANAGEMENT COMMENTS

The FSS Commissioner’s response related that they found the report to be useful and are, themselves, having a study done at how agencies are using the MAS program.

MANAGEMENT CONTROLS

Since our audit objective focused on how customer agencies purchase services and obtain price discounts from the Multiple Award Schedules Program, we did not review or test the Federal Supply Service’s management controls.

APPENDICES

AUDIT OF PROCUREMENT OF PROFESSIONAL SERVICES FROM THE FEDERAL SUPPLY SERVICE'S MULTIPLE AWARD SCHEDULES REPORT NUMBER A020243/F/A/V03009

CUSTOMER QUESTIONNAIRE



U.S. General Services Administration

The GSA Office of Inspector General is gathering information to help GSA better understand the pricing arrangements customers are using under GSA's Federal Supply Schedules for individual service task orders. According to the Federal Procurement Data System (FPDS), we understand that your office is a recent user of the Schedules Program. As such, we invite you to complete a short questionnaire pertaining to a task order your office issued. The questionnaire should take less than 10 minutes and your feedback and insights will be greatly appreciated.

The survey asks you to identify yourself. We have asked for this information in the event that we need to contact you to clarify any general misunderstandings. Your name and the information submitted will remain confidential. The information you provide will only be used to draw conclusions in a summary fashion. If the task order information on the label (located at the top of the questionnaire) is inaccurate, please make any corrections on the label itself.

Please send the completed survey to GSA's Office of Inspector General by folding and resealing the questionnaire so that the GSA mailing address is showing.

Thank you in advance for both your time and consideration. If you have any concerns or questions, please contact Lisa Murray Huat at (703) 603-0152 or via e-mail at elizabeth.huat@gsa.gov.



Customer Questionnaire
Procuring Services through GSA's Federal Supply Schedules

Your Name _____

Phone _____

Email _____

Value of task order award \$ _____

SIN (Special Item Number) or Description of Service _____

1. The task order award amount was a: (Please check one)

Ceiling /Not to Exceed Price Such awards can be made on a labor hour or time and materials basis for establishing prices. The primary characteristic is that a ceiling price is established when the order is issued. The final price will be determined based on the actual labor effort and other variable costs incurred by the vendor in the performance of the task order.

Firm Fixed Price One price was established for the task order, based on the statement of work. The total price that you would pay for the work performed was fixed when the order was awarded, and the price was not subject to adjustment (except for modifications to the order).

Other Please Explain: _____

2. If the award was made on a **ceiling/not to exceed price** basis, what was the basis of the vendor's billings? (Please circle one)

Time and Materials (labor and related materials) **Labor Hour** (just labor) **Other**

If you circled **Other**, please identify the basis of the award or vendor's billings here: _____

3. Did the value of the task order exceed the Maximum Order Threshold?

YES **NO** **DON'T KNOW**

4. Was this task order part of a Blanket Purchase Agreement?

YES **NO** **DON'T KNOW**

5. Were the task order prices better than the GSA schedule prices?

YES **NO** **DON'T KNOW**

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FSS COMMISSIONER'S RESPONSE



GSA Federal Supply Service

JUL 21 2003

MEMORANDUM FOR HENRY NOLL, JR.
REGIONAL INSPECTOR GENERAL FOR AUDITING
ACQUISITION PROGRAMS AUDIT OFFICE (JA-A)

FROM: DONNA D. BENNETT
COMMISSIONER (F) (FPP) *Donna D. Bennett*

SUBJECT: GSA Draft Report, "Procurement of Professional
Services from the Federal Supply Service's Multiple
Award Schedules" (A020243), dated June 16, 2003

While the report does not contain any recommendations, we appreciate the opportunity to comment on the subject report. We find the information in the report to be useful. The Office of Acquisition Management (FX) has begun work on our own study that will look in some depth at how agencies are using the Multiple Award Schedules program. It will allow us to better focus our training efforts and share best practices. Additionally, we are already implementing the report suggestion to improve and increase our training on use of the schedules.

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